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CHAPTER IV. COMMONWEALTH INDEBTEDNESS.

It is almost a commonplace to assert that the commonwealth debts are fast becoming a thing of the past. With the exception of the southern commonwealths, which are still struggling with their war debts, the nominal debt exceeds four million dollars only in Indiana, New York, Massachusetts and Pennsylvania; and in every commonwealth without exception the debt is being decreased as it falls due, except in Mississippi, where unforeseen reduction of receipts compelled a slight increase of the debt. The statistics that have hitherto appeared in all compilations, including the United States census, are however entirely misleading for three reasons.

(a) They call attention only to the gross debt, and make no attempt to give the amount in the sinking fund. This would of course materially reduce the net debt.

(b) They fail to give the amount of the debt held by the commonwealth for its own trust funds. This again would materially decrease the amount of outstanding debt.

(c) They fail to give the amount of commonwealth assets of all kinds, as contained in the trust funds, which must be set over against the gross debt, in order to arrive at the actual debt.

If these precautions are observed they will be seen to modify the accepted statistics in important particulars.

In column one of Table VI it will be seen that there are six commonwealths without any debt. In four of these — Arizona, Montana, Utah and Washington — there are no debts at all; in Colorado there is no funded debt; and in West Virginia there is no accepted debt because of a dispute with Virginia as to the share of the old Virginia debt which it was claimed should be taken up by West Virginia in 1863. (Virginia claimed that one-third should fall to West Virginia, and omitted that portion in the readjustment of her debt.) In addition to these six cases, however, two commonwealths, Illinois and Oregon, have called in their whole debt, and have

redeemed all but a fractional part, thus having practically no debt.

If we now deduct from the nominal debt the amount to the credit of the sinking fund, we find that one additional commonwealth, *viz.* Kentucky, is entirely free of debt, while what I have termed in the table the net debt is considerably altered. The large debts of Massachusetts, Pennsylvania and New York become very small debts; only nine commonwealths, all of them southern, have a debt exceeding five million dollars, while the debt falls below four millions in thirty-three cases, below three millions in thirty-one cases, below two millions in twenty-five cases, and below one million in twenty-two cases.

Secondly, in a number of commonwealths a large proportion of the debt is held by the trust funds, the commonwealth thus paying interest to itself. Frequently the debt so held is a perpetual, irredeemable and irreducible debt. In four cases the total commonwealth debt consists entirely of such an investment in the trust funds, *viz.* California, Iowa, Vermont and Wisconsin. In seven other cases, *viz.* Florida, Indiana, Kansas, Minnesota, Mississippi, Missouri and Texas by far the larger portion of the commonwealth debt is reported as consisting of such an investment. In the first set of cases there is thus no outstanding debt, in the second set a proportionately decreased outstanding debt. The exact figures are given in the remarks below. But manifestly they must be taken into account in a presentation of the statistics. In three cases, *viz.* Kentucky, Nevada and Ohio, the sums so held in trust for the permanent funds are not included by the treasurer in the statement of the debt.

Finally, in order to obtain a correct view of the real liabilities of the commonwealths it is necessary to deduct from the total debt as given the assets or the principal of all the trust funds, as explained in Table II (page 382). I have done this in Table VI and obtain as a final result what I call the actual debt of the commonwealths. These are the really correct

statistics of commonwealth indebtedness. They will be seen to present results different from those commonly accepted. According to these statistics twenty-two commonwealths are entirely free of debt; five of the remainder have a debt of less than one million dollars; four of the remainder less than two millions; three of those remaining less than three millions. That is, thirty-six commonwealths had at the close of the last fiscal year an actual debt of less than three million dollars, while the rest are composed with three exceptions of southern states, whose actual debt is in many cases far less than the nominal debt.

The following summary contains the latest detailed information found in the finance reports as to commonwealth debts.

Alabama adjusted its debt in 1876 by issuing 30 year bonds to bear 2 per cent interest until 1881, then 3 per cent until 1886, then 4 per cent until 1896, then 5 per cent until 1906.

Arkansas. The debt is composed of principal, \$2,029,000, and of past due interest \$2,832,915. The figures given are exclusive of \$1,986,773 levee bonds, \$5,350,000 railroad aid bonds (both adjudged by the courts to have been illegally issued), and \$3,694,644 other debt, the obligation of which is disputed. Of the debt proper the United States government owns over half, \$2,319,250, *viz.* \$793,000 principal and \$1,526,250 past due interest (due mainly to the Smithsonian Institute), while the commonwealth itself holds for two trust funds \$423,000, leaving outstanding in the hands of individuals about \$2,000,000. Details may be found in the "Report of the special deputy treasurer . . . to adjust the debts between the United States and state of Arkansas," 1889.

California holds for its trust funds about the entire issue of its bonds.

Colorado has no bonded debt because of the constitutional inhibition. But it has an unfunded debt of \$858,066, composed of outstanding warrants, certificates of indebtedness, and loco-weed certificates. The loco-weed is a poisonous growth, for the digging up of which not less than three inches

Table VI.

COMMONWEALTH DEBTS.

		Funded Debt as Found in Reports.	Interest. Per cent.	Last Instal- ment Re- deemable.	Sinking Fund.	Net Debt.	Principal of all Funds.	Actual Debt.
Alabama.....	Oct. 1888	\$9,214,300	4-6	1906	\$.....	\$9,214,300	\$2,026,304	\$7,187,996
Arkansas.....	Oct. 1888	4,862,015	6	....	2,924,502	1,937,513	3,462,587	1,399,428
Arizona.....	None.	None.	....	....	.....	None.	.....	None.
California.....	June, 1888	2,703,500	6-7	1893	243,505*	2,459,995	3,978,048	None.
Colorado.....	Nov. 1888	958,066 ²	....	....	.....	958,066	575,048	383,018
Connecticut....	Oct. 1888	3,740,600	3-6	1910	.....	3,740,600	123,828	3,616,772
Idaho.....	Nov. 1888	1,098,800	4-6	1907	.....	1,098,800	.....	1,098,800
Delaware.....	Dec. 1888	824,750	3-6	1907	.....	824,750	1,232,220	None.
Florida.....	Dec. 1888	1,032,500	6-7	....	242,500	790,000	1,042,584	None.
Georgia.....	Oct. 1888	8,752,305	4-7	1936	.....	8,752,305	113,273	8,639,032
Iaho.....	Nov. 1888	200,752	....	....	16,568	184,184	.....	184,184
Illinois.....	Oct. 1888	23,100	....	Called in.	.....	23,100	1,165,406	None.
Indiana.....	Oct. 1888	6,770,608	3-6	....	.....	6,770,608	4,019,237	2,651,371
Iowa.....	June, 1887	245,436	8	Perpetual.	.....	245,436	4,435,069	None.
Kansas.....	June, 1888	815,000	6-7	1898	12,000	803,000	5,346,661	None.
Kentucky.....	June, 1887	674,000 ¹	6	....	710,744	None.	710,744	None.
Louisiana.....	May, 1887	11,982,621	4	....	.....	11,982,621	.....	11,982,621
Maine.....	Jan. 1889	3,935,400	4-6	1889	965,296	2,970,104	4,715,181*	5,655,354
Maryland.....	Sept. 1888	10,370,536	3-6	1901	1,585,159	8,785,377	1,953,863	8,416,673
Massachusetts..	Dec. 1888	28,851,620	3-5	1901	23,935,609	4,915,511	33,568,563	None.
Michigan.....	June, 1888	239,993	7	1890	229,000	10,993	5,178,518	None.
Minnesota.....	July, 1888	3,965,000	4-7	1901	1,994,209	1,960,791	4,946,178	None.
Mississippi.....	Jan. 1888	3,752,904	4-6	....	.....	3,752,904	2,392,657	1,359,247
Missouri.....	Jan. 1889	13,197,000	6	1908	535,000	12,662,000	10,717,539	1,844,461
Montana.....	None.	None.	....	....	.....	None.	.....	None.
Nebraska.....	Nov. 1888	449,267	8	1897	181,681	267,586	1,878,967	None.
Nevada.....	Dec. 1888	175,815 ¹	4-5	....	270,943†	None.	1,211,392	None.
New Hampshire..	June, 1888	2,966,363	6	1905	.....	2,966,363	167,663	2,798,700
New Jersey.....	Nov. 1888	1,296,300	6	1902	.....	.....	3,410,942	None.
New Mexico....	Dec. 1888	762,192	6-7	1905	.....	762,192	.....	762,192
New York.....	Oct. 1888	6,965,355	6-7	1895	4,076,289	2,889,066	12,874,924	None.
North Carolina..	Dec. 1888	6,408,511	4-6	1910	.....	6,408,665	.....	6,408,665
Ohio.....	Nov. 1888	3,046,665 ¹	3-5	1900	999,847	2,046,818	4,565,760	2,046,818*
Oregon.....	Dec. 1888	1,665	....	Called in.	.....	1,665	1,952,041	None.
Pennsylvania....	Dec. 1888	14,738,921	3-6	1912	9,747,847	4,991,074	9,747,847	4,991,074
Rhode Island..	Dec. 1888	1,283,000	6	1894	767,900	515,100	767,900	515,100
South Carolina..	Oct. 1888	6,599,127	3-6	1928	20,000	6,579,127	20,000	6,579,127
Tennessee.....	Dec. 1888	13,899,245	3-6	....	.....	13,899,245	.....	13,899,245
Texas.....	Sept. 1888	4,237,730	4-7	1900	.....	4,237,730	6,334,957	None.
Utah.....	None.	None.	....	....	.....	None.	.....	None.
Vermont.....	July, 1888	135,500	6	Perpetual.	.....	135,500	401,461	None.
Virginia.....	Oct. 1888	8,312,347	3-6	....	2,280,643	6,032,704	3,240,692	5,071,655*
Washington....	None.	None.	....	....	.....	None.	.....	None.
West Virginia..	None.	None.	....	....	.....	None.	606,462	None.
Wisconsin.....	1888	2,251,000	7	Perpetual.	.....	2,251,000	4,842,088	None.
Wyoming.....	1888	320,000	....	....	.....	320,000	.....	320,000

* See notes pages 450-455. † Cash in treasury. ¹ Exclusive of debt held by trust funds. ² Unfunded debt.

below the surface between May and July a premium of $1\frac{1}{2}$ cents per pound is granted.

Florida holds for its trust funds \$580,400 of its own bonds, so that the outstanding debt in the hands of the public amounts to \$382,300.

Georgia issued in 1888 \$1,900,000, $4\frac{1}{2}$ per cent bonds, which will appear in the next report. According to the act the bonds are to mature in series of \$100,000 each. The treasurer states that but for this provision he could have placed the loan at a much lower interest.

Illinois has called in its whole debt, but \$23,100 has not been presented for payment, thus constituting a nominal debt.

Indiana holds for its trust funds \$4,388,783 as its own debt, known as the domestic debt. The remainder, called foreign debt, is held by New York city and Brooklyn banks, and amounts to \$2,381,825.

Iowa holds its whole bonded debt in trust for the school fund. In addition to this there is a temporary debt of \$429,414, consisting entirely of outstanding warrants, which the treasurer assures us will be entirely wiped out by the increased taxes of the next fiscal year.

Kansas holds for its trust funds \$559,000 of its debt, leaving outstanding \$256,000. In addition to this a law of 1887 made provision for paying \$864,089 of old claims, for the payment of losses by invasion of guerillas, at about 40 per cent of the face value. The new guerilla certificates of debt thus amount to \$346,776.

Kentucky. The debt consists of \$174,000 bonds and \$500,000 certificates of indebtedness. In addition to this there are \$1,705,947 state and county bonds issued at 6 per cent; but since these are irredeemable and held for the school fund, the treasurer does not class them as debt proper.

Louisiana refunded her old debt (about \$20,000,000) in 1879 by new bonds at 60 per cent of the face value of the old to bear 2 per cent interest until 1885, then 3 per cent until 1900 and 4 per cent thereafter. No interest was paid from

1874 to 1880. In 1884 the debt was made a uniform 4 per cent consol.

Maine. The debt falls due in 1889. The sinking fund will provide for payment of one-third, and the treasurer recommends the issue of 3 per cent bonds for the remainder.

Maryland, as previously stated, possesses immense nominal assets, of which however only \$5,154,535 are productive. The comptroller asserts that on only \$4,715,181 are dividends or interest regularly paid, and he thus figures the actual debt at \$5,655,354, which I have given. To be perfectly accurate, however, a further deduction of \$2,062,318 should be made for the capital held by the sinking and school funds, making the real actual debt only \$3,593,036.

Massachusetts contracted during the year a temporary loan of \$1,800,000, which was all paid off. The debt proper was reduced \$2,578,061, while in 1889 it will be reduced \$3,959,331. The debt consists of \$9,416,000 war and bounty loan bonds, \$14,738,000 railroad bonds, and \$4,690,000 public building bonds.

Michigan. The war bounty loan of \$229,000 falls due in 1890, and will be met by the sum in the sinking fund. In addition to this debt there are still outstanding \$19,000 of the old railroad debt of 1838, adjustable at \$10,993.

Minnesota holds for its trust funds \$2,269,900 of its own debt, leaving \$1,696,000 outstanding.

Mississippi holds for its trust funds \$2,392,057 of its own bonds, leaving \$1,360,246 outstanding.

Missouri holds for its school and seminary funds \$3,672,000 irredeemable certificates of indebtedness, leaving \$9,525,000 outstanding.

Nevada. The debt as given is exclusive of \$380,000 irredeemable 5 per cent bonds held by the school fund.

New Mexico. The debt includes \$212,192 outstanding warrants.

North Carolina. The act of 1879 as extended by that of 1887 recognized a debt of \$12,627,045. Of these \$10,713,945

have been exchanged for new 4 per cent bonds at 15 per cent, 25 per cent and 40 per cent, making \$3,097,671. Old bonds still outstanding (\$1,913,100) exchanged at same rate would make the total new 4 per cents \$3,613,511. To this add \$2,795,000, 6 per cent renewal bonds, exchanged for old railroad bonds (interest of which is paid out of dividends), and we get the total actual debt of \$6,408,511.

Ohio. The debt is exclusive of the irredeemable state debt of \$4,565,760 held by the trust funds, so that the actual debt (deducting sinking fund) is \$2,046,818.

Oregon. The debt was advertised and called in in 1886. All but \$1,665 has been paid.

South Carolina. The debt is exclusive of a fundable debt of \$450,599. During the year \$420,692 bonds became due, of which \$24,962 were cancelled and the remainder converted into $4\frac{1}{2}$ per cent "blue bonds."

Tennessee. The act of 1883 funded the railroad debt at 50 per cent of face value into 3 per cent stock, and the old state debt proper at par into 5 and 6 per cent stock. The figures in the table give the amount of new bonds issued. In addition it is estimated that \$2,489,000 old bonds are still outstanding and fundable. The United States government holds \$335,667 of Tennessee bonds (with interest, now \$800,000) issued in 1861 and 1866 for railroads given to Tennessee by the United States during the war. Kentucky has since sold the road to the Louisville and Nashville Company, but the money is deposited in bank subject to the claims of the United States. The treasurer suggests a compromise.

Texas holds for its trust funds \$3,017,100 of its debt, leaving outstanding \$1,220,630.

Vermont holds for the agricultural college fund its whole debt.

Virginia. The debt is exclusive of the unfunded debt of \$23,550,696. The debt proper has been funded under the act of 1883. There is a special report of the second auditor on the debt.

Wisconsin holds for its trust funds its entire debt.